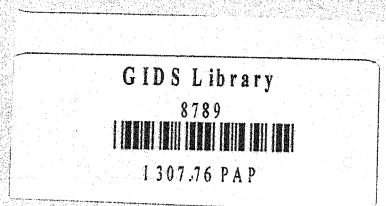


URBANISATION, RURAL-URBAN MIGRATION  
AND  
GROWTH OF INFORMAL SECTOR



*T. S. PAPOLA*



RI  
307.76  
PAP

QIRI INSTITUTE OF DEVELOPMENT STUDIES  
NIRALA NAGAR, LUCKNOW 226007

URBANISATION, RURAL-URBAN MIGRATION  
AND  
GROWTH OF INFORMAL SECTOR

*T. S. PAPOLA*

QIRI INSTITUTE OF DEVELOPMENT STUDIES  
NIRALA NAGAR, LUCKNOW 226007

URBANISATION, RURAL-URBAN MIGRATION AND GROWTH  
OF INFORMAL SECTOR\*

T.S. Papola

The Classical Migration - Urbanisation Pattern

Historically, urbanisation measured in terms of the increasing proportion of population in urban areas, has been a universal accompaniment of economic development. And increase in urban population has mostly been contributed by migration of people from rural to urban areas. The logic of this sequence has been theoretically quite clear rendering any belaboured analysis and explanation unnecessary. Economic development has been historically characterised by expansion of markets necessitating increase in the volume of production with its concomitant features of economies of large scale production and concentration, particularly in the field of industrial development which has been an essential ingredient of economic development. As a result, production activities have grown faster in larger settlements which inevitably, either were or have developed into, urban areas. The concentrated activities in urban areas have been characterised by high productivity resulting into a higher wage and income levels than in rural areas. The consequent differentials in employment and earning levels have resulted into an increasing rural to urban migration and an acceleration in the process of urbanisation.

---

\* Paper prepared for the Indo-Soviet Seminar at Osmania University, Hyderabad.

Essential to the process of urbanisation sketched above is the assumption that the urban industrialisation is sufficiently rapid to generate demand for labour in excess of the natural increase in labour force in urban areas. This condition was generally met in the case of countries which went through the process of industrialisation till the first half of the present century. In many cases the pace of industrialisation itself was not very rapid in absolute terms, but was high enough not only to absorb the growth of local labour force but also a significant number of migrants from rural areas. In most cases growth of population was relatively slow and conditions in the rural areas were not miserable. The volume of migration was, therefore, not too large to disturb the equilibrium between demands and supplies in the urban areas even when the pace of industrial growth was relatively slow. Also, even a slow expansion of industrial activity generated at least the proportionate increase in demand for labour, because the technology of industrial production was and continued to be more or less fixed and relatively labour intensive.

Thus migration from rural to urban areas played an equilibrating role, allocating labour from low productivity, low-income occupations and areas to high productivity, high income occupations and areas, on the one hand; and reducing the income gap between the rural and urban areas, on the other. The causes and consequences of migration as implicit in the historical experience of the countries concerned thus got recognised as natural, inevitable and universal. And it is within this framework that one starts looking at the processes of rapid urbanisation and rural-urban migration



that have been going on in the developing countries, during the past few decades. During this period, industrialisation has taken place in these countries at a fast pace in some and slow pace in others, and urbanisation has taken place at an accelerated rate. Wide differences exist in income levels and general facilities between the rural and urban areas. Acceleration in migration from rural to urban areas apparently thus fits quite logically in this sequential process of industrialisation, rising demand for labour in urban areas, and increasing income differentials between rural and urban sectors.

On a closer examination, however, the phenomenon of high rates of rural-urban migration in developing countries do not seem to fall into place so logically as it appears in the first place. The piece that does not fit into the scheme of things as postulated in the classical framework of analysis of urbanisation and rural-urban migration is the high degree of unemployment obtaining in the urban areas of these countries. No doubt, industrialisation has led to an expansion in job opportunities in urban areas, but due to its relatively slow pace and rising capital intensity, the increase in employment opportunities has hardly been fast enough to absorb even the natural growth in urban labour force, which has risen fast due to rapid population growth. Migration has added significantly to the urban labour force, resulting in urban unemployment of an increasing magnitude. This, however, does not seem to have discouraged further migration from rural areas. The coexistence of surplus labour in urban areas with substantial and continuing migration from rural areas thus presents

a dilemma in the analysis of urbanisation in developing countries.

### The Migration Puzzle of Developing Countries

This apparently irrational behaviour may in the short run be a result of lack of information, or prevalence of misinformation. But it cannot continue over a long period, as sooner or later, the prospective migrants would come to know the facts from the experiences of failed or disappointed migrants. A plausible explanation of the phenomenon has been advanced, by several economists led by Michael Todaro, in terms of the expected though not necessarily immediate chance of getting a well paid employment in the urban areas of the migrants' destination. There are significant differentials in the real earnings between the rural and urban areas, and even if a migrant does not get the desired employment immediately on migration, the waiting period of unemployment or low-paid employment, gets more than compensated by the relatively high earnings of the job he eventually hopes to secure. Thus, so long as there is a reasonably high probability of getting a job with average urban earnings, rural migrants would continue to flock into urban areas, as according to this explanation, it is not the relative current earnings, but the life-time expected earnings that a rural migrant aims at maximising in making a decision to migrate. Even a 8 to 10 per cent employment in the urban areas thus gives a reasonably high probability of securing a job, and the chance is worth taking as any loss suffered initially is more than compensated once the job materialises.

The basic logic of the above model is extremely helpful in

explaining the dilemma of the persistent rural-urban migration along with substantial urban employment. Some of the basic assumptions and implications of the model, however, invite closer scrutiny in view of the certain features of the migration process. First, for a sizeable number of migrants the choice based on the assessment of the relative advantages of the places of origin and destination, as is implicit in the model, may, in fact, not be available. The extreme poverty, converging on virtually zero income, coupled with the prevalent and increasing economic and social inequality in the rural areas sometimes leaves no option for a rural worker but to migrate to urban areas. No doubt, his decision involves a betterment of his position, but the phenomenon of migration in this case is qualitatively different from a situation when a villager can continue to subsist at an average level in the rural area, but decides to migrate because the urban area offers him better expectations of opportunities. In terms of the oft-repeated terminology of migration analysis, a large part of the migration is motivated mainly by 'push' factors, while the above model tends to emphasise the 'pull' factors more prominently.

Secondly, the current differentials not only in average, but also in the marginal, earnings are wide enough between the rural and urban areas, in most cases, that it is not necessary for the migrant to assess the life-time expected earnings differentials to make a decision to migrate. It is seen that the period of unemployment on migration before getting some work is not very long; unemployment is not necessarily higher among migrants than among

non-migrants in the urban areas; and, whatever job a migrant takes up even in the informal sector, fetches him, on an average a higher income than he would have earned, or could be attributed to him in the household activity, in his native village. In any case, the consideration of life-time expected earnings becomes relevant only in the cases of permanent or semi-permanent and not in the cases of temporary or 'target' migration. Theoretically, there is no denying the logic that differences in life-time expected earnings form the basis of long-term migration on a sustained basis but, in practice their consideration is found either unnecessary or irrelevant, and current earnings differential is sufficient and immediately relevant motivation to migrate.

#### Migration and Growth of Urban Informal Sector

The sustained process of rural-urban migration motivated by the expectation of employment in the formal sector combined with a slow growth of organised industrial sector is supposed to have contributed significantly towards the growth of informal sector in the cities of the developing countries. The migrants failing to secure the desired job immediately, but hoping to get one in future, take to relatively less remunerative jobs, mostly in the unorganised sector, or start work on a self-employed basis in the activities where the entry is relatively less restricted and easy. The growth of urban informal sector, according to this hypothesis, is thus basically caused by excess supply of labour, resulting from more migrants coming in than the urban sector can absorb at the average

level of productivity and wages in the organised sector. It is thus depicted as the 'residual sector', absorbing such of the workers who cannot get employment in the organised sector; and, at the same time, acts as vestibule through which the migrants ultimately hope to enter the cherished organised sector.

An implication of the model based on life-time expected earnings hypothesis thus is that the workforce in urban informal sector, or at least the additions to it, is composed primarily of the rural migrants. It is, however, not found to be empirically valid in many situations. The informal sector has been an integral part of the urban economies, its size has expanded in most cases with the increase in the size of the town or city, and both urban residents and rural migrants have found employment in this sector. While many migrants could find jobs only in the informal sector, even though they may have migrated with a view to entering an organised sector job, there is also a sizeable proportion of permanently disadvantaged among the urban residents who have no endowment to enter the rather restrictive organised sector and have, therefore, continued to work in the informal sector through generations. Thus the informal sector is no 'exclusive preserve' of the migrants. Migration adds to the total urban population, and, to a larger extent, to the total urban labour force; and the migrant workers are found well distributed among the organised sector, the informal sector, and also the unemployed. No consistent selectivity is observed among migrants in relation to the entry into one or the other segment of the urban workforce.



The hypothesis that an entrant in the informal sector particularly a migrant, ultimately gets a job in the formal sector, and it is this expectation that sustains migration and 'temporary' acceptance by migrants of the low wage jobs in the informal sector, seems to be getting increasingly invalidated by the experience of the informal sector workers. The chances of graduating to the formal sector are very low, as is indicated by generally long periods of work (15 to 20 years) observed in the case of individual workers in the informal sector. In fact, most informal sector workers - migrants or residents - are likely to continue working in that sector, and due to deficient economic endowment and non-access to public facilities, even their children may have to end up working in that sector. In this situation explaining migration in terms of the life-time expected earnings on the assumption on a migrant's landing at some stage in his career into an organised sector job, does not seem realistic. The growth of informal sector in urban areas cannot, therefore, be solely attributed to migration induced by expectations of high earnings in the urban formal sector. The slow growth of the organised sector employment in comparison to the growth of labour force both on account of the natural increase in local population and in-migration from rural areas has contributed to the recent growth of informal sector in urban areas.

At the same time, it would be incorrect to assume that the informal sector is an unnecessary appendage to the urban economy, as it mainly serves the purpose of absorbing the residual labour force. Informal sector has always been a part of urban settlements,



not merely absorbing the residual labour force, but supplying various goods and services not produced or produced only at relatively high costs by the formal sector.

The size and composition of the informal sector has, however, varied among urban areas depending on their dominant activity and rate of growth. The informal component tends to be highly different among different activities. Trade and construction activities have a high informal component; and so has the personal services. The informal component of manufacturing activity differs depending upon the industrial structure : textiles tend to generate a lot of informal sector activity while heavy engineering and chemicals get mostly concentrated in the formal sector. An administrative town has a smaller informal sector, mainly confined to the personal services and construction activity. A pilgrim town, on the other hand, has a high component of informal sector.

#### Two Forms of Informal Sector Growth

Despite these variations, however, a tendency of increase in the size and many a time, the extent, of informal sector has been observed in most of the urban areas of developing countries. And what is significant to note is that this tendency has operated along with the process of growth of the formal sector. A slow growth of the organised sector in a situation of rapid increase in the local and migrant labour force has, no doubt, resulted in the growth of informal sector. But a relatively faster growth of the organised sector has also been found accompanied by an

expansion of the informal sector. The pattern of its growth in the former situation is characterised by a structure of activities with very little linkages with the organised sector, and low productivity and low earning levels; while in the latter case the growing informal sector is getting increasingly linked through technology and market with the formal sector and generating employment with reasonably high levels of productivity and earnings, though still lower than in the formal sector. The latter kind of informal sector growth is observed mainly in urban centres which have experienced a rapid expansion of industrial activity in the organised sector.

The growth of the 'residual' variety of the urban informal sector thus seems to be a natural consequence of slow growth of modern sector in urban areas and increasing misery due to population pressure and growing inequality, in the rural areas. Growth of this variety of informal sector is likely to dampen the pace of economic growth and accentuate dualism in economic structure and labour markets in the urban areas. Growth of informal sector induced by expansion of organised industry provides relatively better conditions to those engaged in it and is likely to lead to a greater integration in the urban economic structure.

#### Informal Sector and Capitalist Development

It is observed that both the demographic trends and the pattern of development of formal sector capitalist enterprises are leading

to expansion of the urban informal sector. In fact, the formal sector enterprises themselves have an interest in the mushrooming growth of the informal sector units. The informal sector enterprises, no doubt, face a number of disadvantages in their operations in respect of availability of space and other public distributed inputs and services, and of unprotected and competitive markets for their products. But one important advantage they have is of cheap labour, as labour laws requiring payment of standardised wages and social security benefits and observance of minimum conditions of work are not applicable to them; and unionisation is virtually absent among their workers. In order to reduce labour costs, which are relatively high in their case due to legislative stipulations and unionism, the formal sector enterprises prefer to pass on a part of their work to the informal sector units, or purchase certain semi-processed inputs and intermediate products from them, instead of expanding onw capacity to produce these items. They are thus not only happy with the existence of a number of small units with whom they can deal in this process, but sometimes are even willing to help establishment of such units. Units are often sponsored by large establishments under their own aegis to reduce their tax burden as well.

Besides, the above direct operational advantage that informal sector offers to the large formal sector units, it is also in the interest of the organised sector establishments that a sizeable informal sector exists as the reservoir of surplus labour to prevent a rise in wages. The 'reserve army of labour' subsisting

in the informal sector at very low wages is always available for regular and relatively secure jobs in the formal sector, thus weakening any pressure on employers to raise wages in the formal sector. It has been observed, for instance, that the organised sector employers in Indian industry advance arguments of equity quoting low wages of unorganised sector workers, as a counter to increasing pressure by unions and others for a rise in wages. Thus the informal sector is found a necessary and convenient mechanism for capitalist development and accumulation. It is, therefore, sometimes argued that the national and international plea for preferential treatment for the informal sector in development policies of the developing countries is a part of the capitalist strategy of development; and the gullible governments of the developing countries with their wavering industrial and development policies have also often swallowed the bait.

### Conclusion

At the present stage, a sizeable informal sector employing a large number of workers at very low wages and in poor conditions of work, seems to be an inevitable characteristics of urban areas in developing countries, due to a rapid growth of both urban and rural population, combined with a slack in the pace of industrialisation. The long term consequences of the dualistic structure with widening schism between the workers in the two sectors, however, need to be clearly recognised. The long term strategy should, therefore, avoid falling in the trap of emphasising sus-

tenance of informal sector and thus encouraging dichotomous economic structure with all its inequitious concomitants; but should instead stress on expansion of industrial activities in the formal sector and upgrading of the informal sector activities with a view of their ultimate integration with the modern formal sector. In the pattern of capitalist development that most developing countries have opted for, inequities and exploitation are inevitable, but at least growth could be better achieved and extreme inequities in the labour market could be avoided, if the growth of informal sector is induced by industrialisation rather than resulting from the lack of industrial growth.



## II WORKING PAPER

1. **V.B. Singh, P.D. Shrivastava & R.S. Mathur** : The Problems of Select Urban Handicrafts in Uttar Pradesh (Summary of Project Report)
2. **R. S. Mathur** : Chikan Handicraft, Lucknow
3. **V. B. Singh, R. S. Mathur** : The PIREP : An Evaluation of Reoti and Bansdih Blocks (Summary of Project Report)
4. **T. S. Papola** : Planning for Employment : Some Observations
5. : Rural Industries in U. P. : The Non-Household Sector
6. : Industrialisation, Technological Choices and Urban Labour Markets
7. : Rural Householed Industries in Uttar Pradesh
8. : Fiscal Devolution by Finance Commission : Plea for a Dynamic Approach
9. : Report of the Seminar on Regional Patterns of Agricultural Development
10. : Report of the Regional Seminar on the Indian Youth
11. **Bhanwar Singh** : The Exchange Structure and the Process of Capital Accumulation in India
12. **H. S. Verma** : Services in Urban India : A Non-elitist Perspective
13. : Family and Industrial Development in India : Some Issues and Hypotheses
14. : Character and Functioning of Rural Parties and Working of Federal Polity in India
15. : Studying Entrepreneurs and Entrepreneurship : An Examination of the Adequacy of Approaches Used
16. **R. Ramasubban** : Health Care for the People : The Empirics of the New Rural Health Scheme
17. : National Movements in Ex-Colonial Democracies : The Naga Impasse in India
18. **V. N. Misra, A. Joshi** : Performance of Agriculture in Semi-arid Region of U P. : An Inter-District Analysis
19. **T. S. Papola** : Sex Discrimination in the Urban Labour Markets : Some Propositions Based on Indian Evidence
20. **H. S. Verma** : Study of Social Change in Independent Rural India Critical Issues for Analysis of Fourth Decade
21. **T. S. Papola, V. N. Misra** : Labour Supply and Wage Determination in Rural Uttar Pradesh
22. **T. S. Papola** : Informal Sector : Concept and Policy
23. **H. S. Verma** : Nature and Development Implications of Post-Independence Change in Rural India : A Case Study from Uparhar Area
24. **Shiva K. Gupta** : Harijan Legislators : Their Alienation & Activism (Harijan Power : A Case Study)